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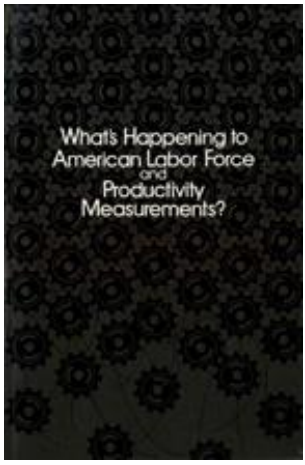
The Hardship Consequences of Labor Market Problems



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The Hardship Consequences of Labor Market Problems*

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Who Really Suffers?

How many really suffer as a result of labor market problems? This is one of the most critical yet contentious social policy questions. In many ways, our social statistics exaggerate the degree of hardship. Unemployment does not have the same dire consequences today as it did in the 1930s when most of the unemployed were primary breadwinners, when income and earnings were usually much closer to the margin of subsistence, and when there was no safety net for those failing in the labor market. Increasing affluence, the rise of multiple-earner families, the growing predominance of secondary earners among the unemployed, and improved social welfare protections, have unquestionably mitigated the welfare consequences of joblessness. Earnings and income data also overstate the dimensions of hardship. Among the millions with hourly earnings at or below the minimum wage level, the overwhelming majority are from multiple-earner, relatively affluent families. Most of those counted by the poverty statistics are elderly, handicapped or have family responsibilities which keep them out of the labor force, so the poverty statistics are by no means an accurate indicator

*This paper was adapted from *Hardship* (Kalamazoo, MI: The W. E. Upjohn Institute for Employment Research, 1982).

of labor market failure. Moreover, in-kind benefits which reduce cash needs are not considered in the poverty measures.

Yet there are also many ways our social statistics underestimate the degree of labor market-related hardship. The unemployment counts exclude the millions of fully employed workers whose wages are so low that their families remain in poverty. Low wages and repeated or prolonged unemployment frequently interact to undermine the capacity for self-support; since the number experiencing joblessness at some point during the year is several times the average annual unemployed, the number who suffer as a consequence of forced idleness can equal or exceed the monthly unemployment levels even though only a minority of those unemployed in any month really suffer. For every person counted in the monthly unemployment tallies, there is another working part time because of the inability to find full time work, or else outside the labor force but wanting a job. Finally, income transfers in our country have always focused on the elderly, disabled and dependent, neglecting the needs of the working poor, so that the dramatic expansion of cash and in-kind transfers has not necessarily alleviated labor market-related hardship.

Mountains of facts, figures and learned treatises have been marshalled to prove that the truly needy are few and far between. An equally imposing volume of contradicting evidence documents uncounted and unmet basic needs. The result is confusion. It is uncertain and bitterly disputed whether those suffering seriously as a result of labor market problems number in the hundreds of thousands or the tens of millions, and, hence, whether high levels of joblessness can be easily tolerated or must be countered by job creation and economic stimulus, whether the safety net needs dismantling or strengthening, and whether the long term hardship trends

justify a "laissez faire" response or demand fundamental restructuring of labor markets and the income distribution system. There is only one area of agreement in this debate—that the existing poverty, employment and earnings statistics are inadequate for one of their primary applications: measuring the welfare consequences of labor market problems.

Thus, the hardship measurement system was developed to determine who really suffers as a result of joblessness, low earnings and involuntary part-time employment. Available employment, earnings and poverty data are structured into a set of core indicators which incorporate alternative need and workforce attachment standards, which assess the severity of problems as well as the numbers affected, which consider earnings from both an individual and family perspective, as well as considering supplementary income including in-kind aid. The aggregate measures, in turn, are disaggregated to identify the relative hardship burdens for different population segments and to learn more about the causes and cures for hardship.

The Dimensions of Hardship

The Basic Indicators

The hardship measures are designed to address six basic questions:

— *Inadequate Individual Earnings (IIE)* - How many persons who participate in the workforce during the year are unable to earn at least the minimum wage equivalent for their total hours of work availability?

— *IIE Deficit* - What additional earnings are needed to raise the wages and salaries of these individuals with inadequate earnings to the minimum wage level?

— *Inadequate Family Earnings (IFE)* - How many workforce participants are in families whose total wages and salaries are below the poverty level?

— *IFE Deficit* - For workforce participants with Inadequate Family Earnings, what is the shortfall between family earnings and poverty thresholds?

— *Inadequate Family Income (IFI)* - How many workforce participants have family incomes below the poverty level?

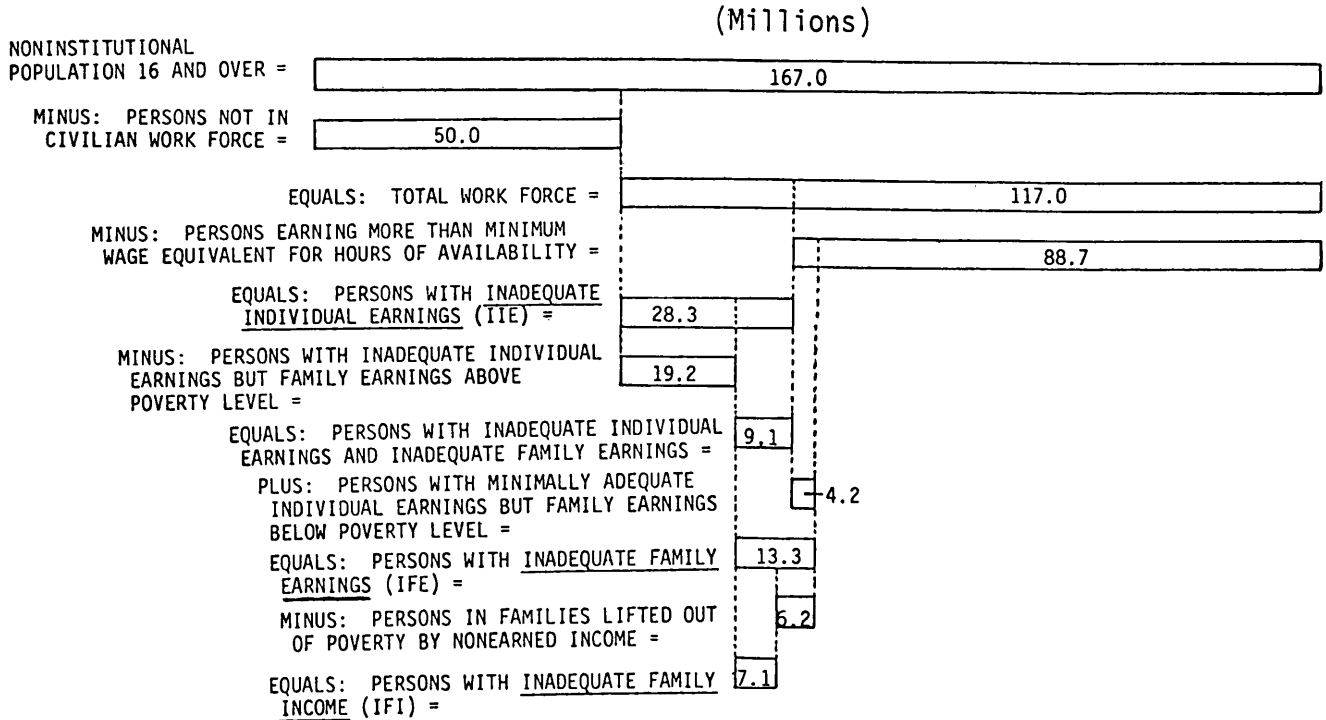
— *IFI Deficit* - How many dollars of added earnings or other income are needed to raise the families of workforce participants in the IFI out of poverty?

Based on the work experience, income, earnings and other information collected in the March Current Population Survey covering the preceding calendar year, these questions can be answered for each year since 1974, with the latest available data covering 1980. The derivation and dimensions of hardship are best illustrated using 1979 as a baseline, since this was the last year when the economy was reasonably healthy:

1. *Inadequate Individual Earnings (IIE).* During 1979, seven of every ten persons age 16 and over worked or looked for work in the civilian labor market. Among these 117.0 million participants, one of every four, or 28.3 million, had annual earnings less than the amount each would have earned if paid the minimum wage for all hours they were willing and able to work during the year (Chart 1).

2. *IIE Deficit.* To raise the earnings of these individuals up to the minimum wage equivalent for their hours of availability would have required $52.0 billion in additional earnings, which represented 4.0 percent of the nation's total wages and salaries. The average worker

Chart 1
Persons in Severe Hardship, 1979



in the IIE needed $1,839 in added annual earnings to reach the minimum wage equivalent.

3. *Inadequate Family Earnings (IFE).* Not all these individuals were economically deprived as a result of their earnings shortfalls, while others, who themselves earned at least the minimum wage equivalent, nevertheless lacked the annual family earnings required to escape poverty either because of their own limited hours of availability for work, their large families, or the lack of supplementary family earners. Two-thirds of the 28.3 million persons with Inadequate Individual Earnings lived in families with combined earnings *above* the poverty level, leaving only 9.1 million in families unable to achieve minimal self-support by the work of family members. On the other hand, there were 4.2 million workforce participants with *adequate* individual earnings relative to their hours of availability who were in families with below-poverty earnings. These 13.3 million workforce participants with Inadequate Family Earnings represented 11.4 percent of the total workforce.

4. *IFE Deficit.* Workforce participants with Inadequate Family Earnings needed an additional $31.7 billion in wages and salaries to raise their families' earnings to the poverty level. This IFE Deficit represented 2.4 percent of the nation's total wages and salaries and averaged $2,384 for each workforce member in the IFE count.

5. *Inadequate Family Income (IFI).* Of the 13.3 million in the IFE, 2.8 million were in families lifted out of poverty by the receipt of private pensions, alimony, interest and other nontransfer income. Cash transfers such as welfare and social security, raised an additional 3.4 million above the poverty threshold. Thus, just

over half of the individuals with Inadequate Family Earnings also had Inadequate Family Income. This 7.1 million in the IFI represented 6.0 percent of the workforce and two-fifths of the poor age 16 and over.

6. *IFI Deficit.* Transfers and other sources of income reduced the $31.7 billion IFE Deficit by almost three-fifths. The $12.8 billion IFI Deficit for poor families with members in the workforce represented over half of the nation's total poverty deficit. To alleviate poverty among the working poor would have required an additional $1,818 in earnings supplements for each workforce participant with Inadequate Family Income.

Hardship and Workforce Attachment

These measures of severe hardship counted all individuals participating in the workforce during 1979, including some holding or looking for part-time jobs so that they were available for work just a few hours over the year, but others in the labor force full-time, year-round. Although seven of every ten workforce participants in 1979 worked or looked for work at least 50 weeks, only half of those with Inadequate Individual Earnings were available full-year (Chart 2). Among the workforce participants in the IFE and IFI, only three-fifths participated for half a year or more and just two-fifths were full-year participants.

Increased workforce attachment reduced the probability of economic hardship (Chart 3). The rates of Inadequate Family Earnings and Inadequate Family Income among participants in the workforce less than half the year were more than four times the rates among full-year participants. Obviously, families with full-year participants had more hours of potential employment and were, therefore, more likely to have family earnings above the poverty level. Yet the in-

Chart 2
Severe Hardship Counts by Work Force Attachment During 1979

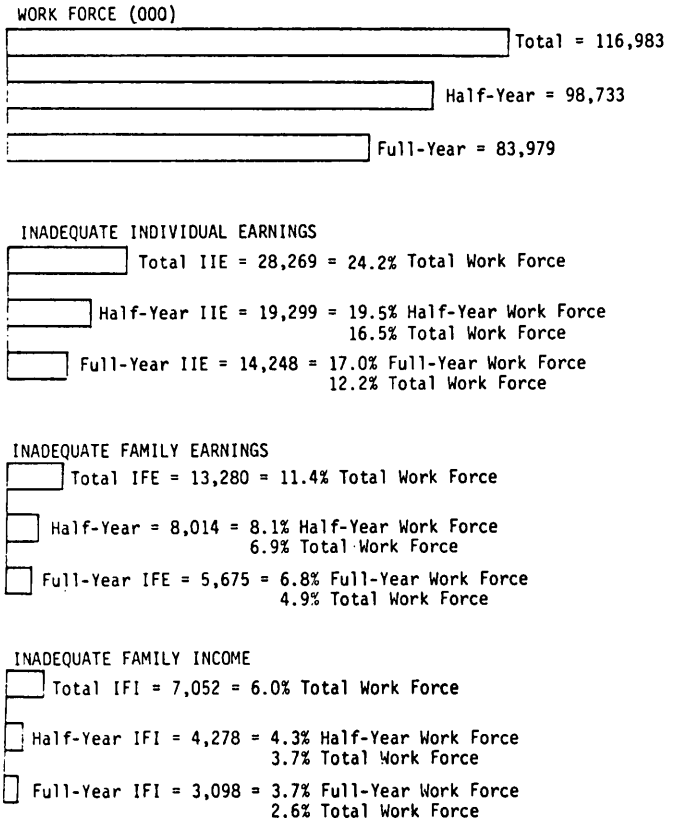
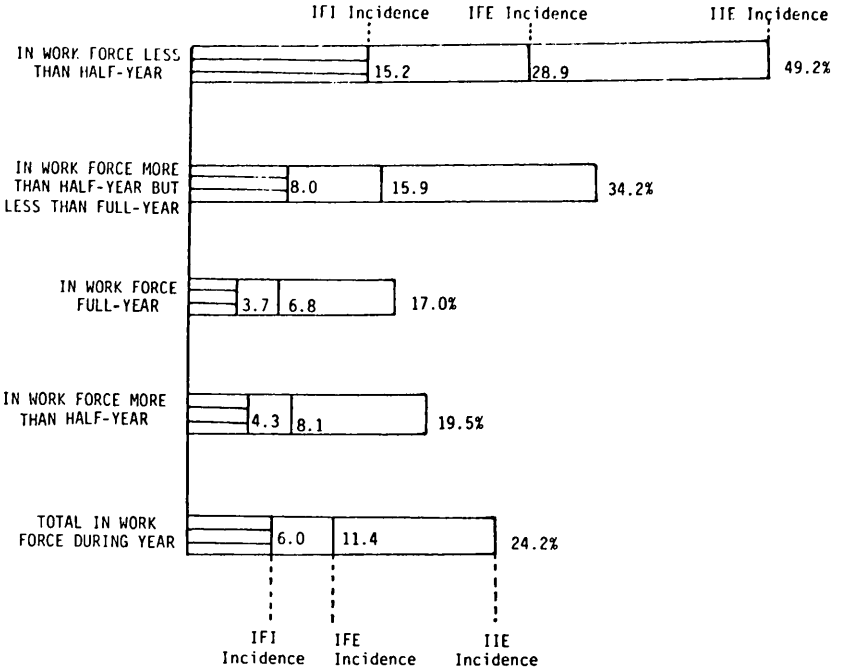


Chart 3
Incidence of Hardship by Work Force Attachment, 1979



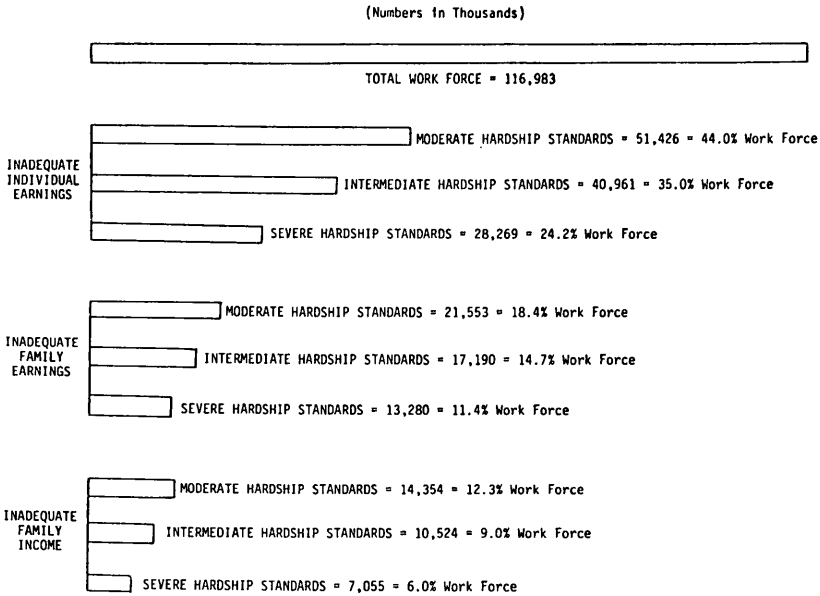
cidence of Inadequate Individual Earnings among less than half-year participants was also greater than among full-year participants, even though the adequacy of each person's yearly earnings was judged relative to his or her estimated annual hours in the workforce.

Alternative Adequacy Standards

The attainment of minimum wage earnings for individuals and poverty threshold earnings for families is hardly a cause for rejoicing. For an urban family of four, the lowest-level food menu of the Department of Agriculture, dinner out at a low-priced restaurant once every two months, minimally adequate rental housing, no out-of-town trips, auto ownership by just half of families, a movie for the children once a month, no cigarettes, and a six pack of beer three times a month for the family, would have cost an estimated $12,000 in Autumn 1979. The 1979 poverty level for a nonfarm family of four represented less than three-fifths of this BLS lower living standard. If one parent worked full time and the other worked part time at the $2.90 minimum wage in 1979, their combined family earnings would have been less than three-fourths of the standard; and even if both earned 150 percent of the minimum wage, they would have just achieved the lower living standard.

The use of less severe earnings and income standards increases the hardship counts and related deficits (Chart 4). Calculating the IIE on the basis of 125 percent, rather than 100 percent, of the minimum wage for all hours of availability, raises the IIE tally among total workforce participants by 45 percent; while comparing family earnings and incomes to 125 percent rather than 100 percent of the poverty level raises the IFE count by 30 percent and the IFI count by nearly half.

Chart 4
Hardship Among 1979 Work Force Participants Under Alternative Adequacy Standards



Severe Hardship Standard: IIE earnings standard 100 percent of minimum wage and IFE family earnings and IFI family income standard 100 percent of poverty

Intermediate Hardship Standard: IIE earnings standard 125 percent of minimum wage and IFE family earnings and IFI family income standard 125 percent of poverty

Moderate Hardship Standard: IIE earnings standard 150 percent of minimum wage and IFE family earnings and IFI family income standard 150 percent of poverty

What Causes Hardship

Labor Market Pathologies

The unemployment rate is our nation's most carefully scrutinized and widely quoted social indicator, to a large extent because of the presumed association between joblessness and economic deprivation. Each week of forced idleness reduces annual earnings and increases the chances that individual and family earnings will be inadequate. Almost all of the 1979 workforce participants who were unemployed or discouraged for two-thirds or more of their weeks in the labor market had annual earnings below the minimum wage level for their yearly hours of availability (Chart 5). Yet among those unemployed less than a third of their weeks in the labor force, two of every three had at least minimally adequate individual earnings over the year. Since this group with shorter duration unemployment represented three-fifths of those experiencing unemployment, only half of all the unemployed had Inadequate Individual Earnings, among whom three of every five resided in families with combined earnings above the poverty level. Just one of every seven workforce participants who experienced unemployment during the year resided in a poor family.

Workforce participants who experienced unemployment (000)	18,468
- Unemployed with adequate individual earnings	-8,591
= Unemployed in IIE	9,877
- Unemployed with Inadequate Individual Earnings but family earnings above poverty level	-6,169
+ Unemployed with adequate individual earnings but Inadequate Family Earnings	+502
= Unemployed in IFE	4,210

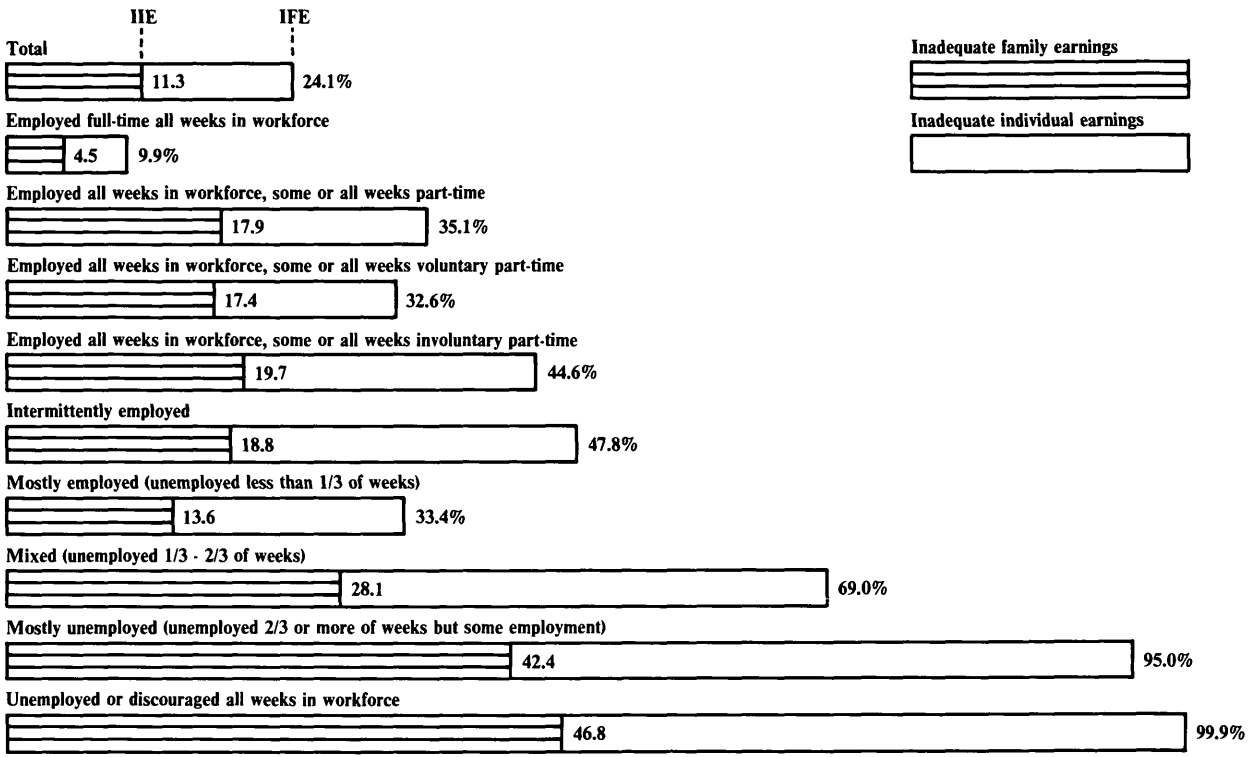
- Unemployed in IFE lifted out of poverty by non-transfer income	-548
- Unemployed in IFE lifted out of poverty by cash transfers	-1,044
= Unemployed in IFI	2,618

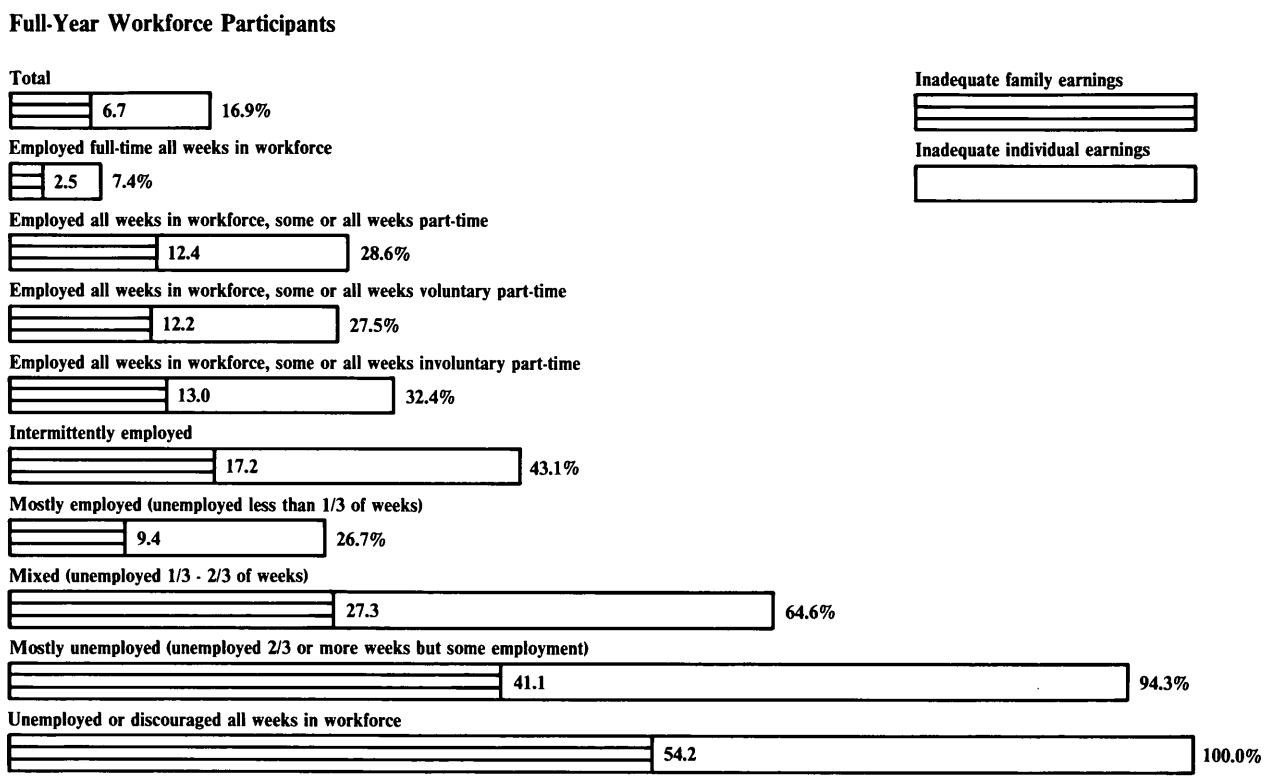
Thus, unemployment and economic hardship were hardly synonymous. Over half of those who experienced unemployment during 1979 resided in families with incomes above $15,000, or just below the median family income level, compared with only 6 percent of labor force participants included in the IFE count, and virtually *none* of those included in the IFI count (Chart 6).

Low hourly earnings and limited hours of employment, rather than unemployment, were the major causes of hardship. Two-thirds of the 28.3 million workforce participants with Inadequate Individual Earnings, and a similar proportion of the 13.3 million with Inadequate Family Earnings, experienced *no* unemployment during the year. There were 6.4 million low-paid workers who were employed full time during all weeks of participation yet did not earn the minimum wage equivalent for their hours of availability. Likewise, one of three persons with Inadequate Family Earnings, and a fourth of these with Inadequate Family Income, had full-time jobs during all their weeks in the workforce. Thirty-five percent of part-time workers who were employed all weeks of participation did not earn the minimum wage equivalent for their hours of availability, and they accounted for over two-fifths of the persons with less than minimum wage earnings.

	Distribution of workforce and severe hardship counts for total workforce by work experience pattern			
	Work force	IIE	IFE	IFI
Employed full time all weeks	55.0%	22.7%	22.0%	24.8%
Employed part time voluntarily some or all weeks, no unemployment	23.1	31.1	35.6	26.6
Employed part time involuntarily, some or all weeks	6.1	11.3	10.7	11.6
Unemployed one-third or fewer weeks in workforce	9.4	13.0	11.3	13.3
Unemployed one-third to two-thirds weeks in workforce	3.3	9.5	8.3	8.9
Unemployed over two-thirds of weeks in workforce but with some employment	1.4	5.4	5.1	6.0
Not employed	1.7	7.0	7.0	8.9
Total	100.0	100.0	100.0	100.0

Chart 5
Severe Hardship Incidence Rates Among Individuals with Differing Patterns of Work Experience During 1979




Full-Year Workforce Participants
Inadequate family earnings
Inadequate individual earnings
Total
6.7
16.9%
Employed full-time all weeks in workforce
2.5
7.4%
Employed all weeks in workforce, some or all weeks part-time
12.4
28.6%
Employed all weeks in workforce, some or all weeks voluntary part-time
12.2
27.5%
Employed all weeks in workforce, some or all weeks involuntary part-time
13.0
32.4%
Intermittently employed
17.2
43.1%
Mostly employed (unemployed less than 1/3 of weeks)
9.4
26.7%
Mixed (unemployed 1/3 - 2/3 of weeks)
27.3
64.6%
Mostly unemployed (unemployed 2/3 or more weeks but some employment)
41.1
94.3%
Unemployed or discouraged all weeks in workforce
54.2
100.0%

Breadwinners and Breadwinning Responsibilities

Because needs increase with family size, the welfare consequences of low individual earnings are more serious for breadwinners who must support large families. Where there are many mouths to feed, minimum wage equivalent earnings are not a passport out of poverty even with full time, full-year employment. But many breadwinners with numerous dependents also have limited annual hours of work availability and of actual employment.

Among the 13.3 million workforce participants with below-poverty family earnings in 1979, and the 5.7 million in the full-year IFE, 4.2 million and 1.2 million, respectively, earned above the minimum wage equivalent for their annual hours of availability. Conversely, among the 28.7 million total workforce participants, and 14.2 million full-year participants, with Inadequate Individual Earnings in 1979, only 9.1 and 4.5 million, respectively, were in families with below-poverty earnings.

The probabilities that persons with Inadequate Individual Earnings will be members of families with below-poverty earnings, or that family earnings will be inadequate despite adequate individual earnings, increase with the number of dependents per worker. For instance, the IFE incidence among workers in families with two workforce participants were as follows:

	Incidence of Inadequate Family Earnings among workers with Inadequate Individual Earnings	**Incidence of Inadequate Family Earnings among workers with Adequate Individual Earnings**
Two in family	18.9%	1.4%
Three in family	17.9	1.2
Four or five in family	26.7	2.3
Six or more in family	46.9	9.3

The likelihood of Inadequate Family Earnings declines when there are more breadwinners in a family and when they have greater labor force attachment. As an example, 1979 workforce participants from families with four or five members had the following IFE rates:

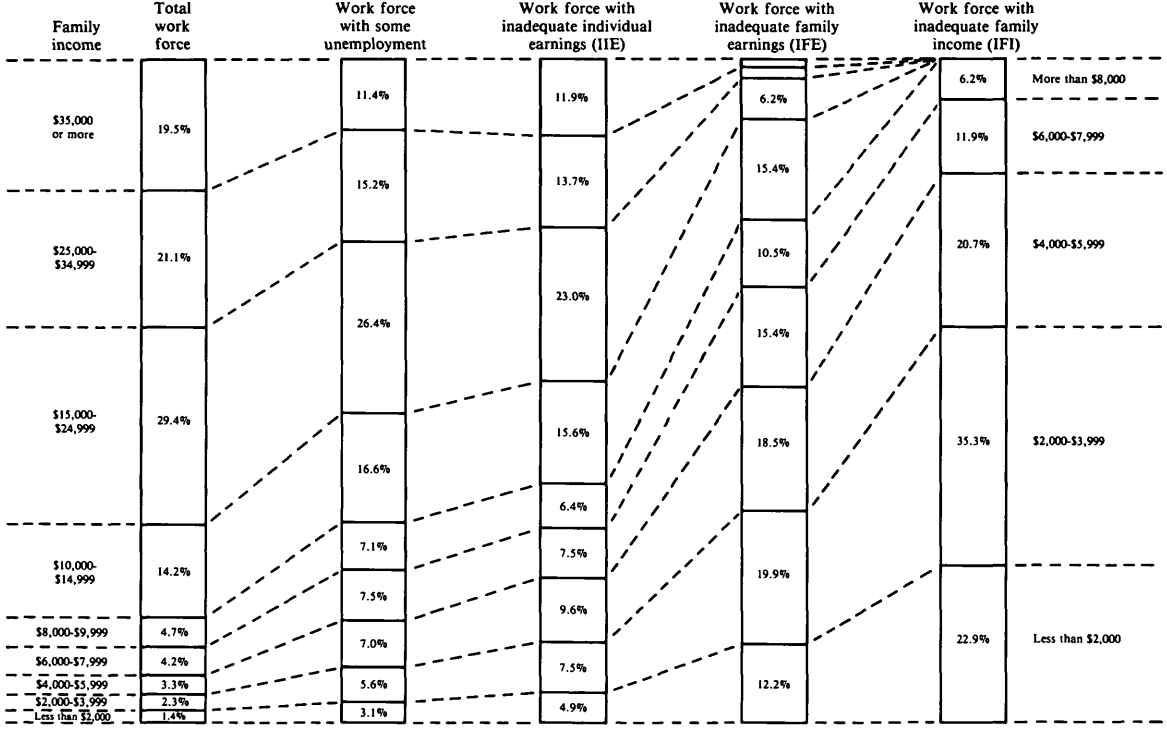
	Incidence of Inadequate Family Earnings among workers in families with four or five members
Three or more full-year participants in family	1.6%
Three or more in workforce at least one week	3.0
Two full-year participants	5.5
Two in workforce at least one week	8.6
One full-year participant	12.3
One in workforce at least one week	20.5

Work and Welfare Overlap

Income transfers mitigate the welfare consequences of labor market problems, but many workers and their families, including millions with substantial workforce participation, fall through the safety net. In-kind aid provides some relief, but adding the estimated value of in-kind food and housing aid only modestly reduces the number of workforce participants in poverty.

Of the 13.3 million workers in families with earnings below the poverty level in 1979, 2.8 million were lifted above the poverty line by nontransfer earnings supplements such as private pensions, alimony, dividends and interest. Cash transfers then lifted a third of the remaining 10.5 million out of poverty. Adding the value of food stamps to the cash incomes of recipient families reduced the working poor by

Chart 6
Distribution of Total Work Force, Unemployed and Work Force Members in Hardship by Family Income



another 0.5 million, while adding the value of free school lunches and housing subsidies reduced the total an additional 0.3 million. In other words, poverty among workforce participants was reduced a third by cash transfers, while cash and in-kind transfers (excluding health care) reduced the number of working poor by two-fifths. Cash assistance reduced the IFI Deficit by $11.2 billion, or almost half, and if food stamps, school lunches and housing benefits received by the working poor were "cashed out," their poverty deficit would have been cut by an additional $2.4 billion.

Hardship Counts

	(000)
Workforce participants in families with below poverty earnings (IFE)	13,280
-Lifted out of poverty by non-transfer earnings supplements	-2,823
= Workforce participants who would be poor without transfers (IFI Net-of-Transfers)	10,457
-Lifted out of poverty by cash transfers	-3,402
= Work force participants in poverty (IFI)	7,055
-Lifted out of poverty by addition of value of food stamps to cash income	-533
-Lifted out of poverty by addition of value of housing subsidies and school lunches to cash income and food stamps	-281
= Work force participants in poverty counting in-kind aid as income (IFI Including In-Kind Aid)	6,241

Hardship Deficits

	($000)
Family earnings deficit of workforce participants in families with below poverty earnings (IFE Deficit)	$31,656
-Reduction in family earnings deficit resulting from non-transfer earnings supplements	-7,650
= Poverty deficit of families with workforce participants if cash transfers excluded (IFI Net-of-Transfer Deficit)	24,006
-Reduction in poverty deficit resulting from cash transfers	-11,181
= Poverty deficit of families with workforce participants (IFI Deficit)	12,825
-Reduction in poverty deficit if food stamps counted as cash income	-1,916
-Further reduction in poverty deficit if value of housing subsidies and school lunches added to cash income and food stamps	-530
= Poverty deficit of families with workforce participants when in-kind aid value included with cash income (IFI Including In-Kind Aid Deficit)	10,379

The Burdens of Hardship

Hardship, like unemployment, is most likely to affect women, minorities, younger and older workforce participants, persons with limited education, workers in blue-collar and service jobs, and residents of nommetropolitan areas and large central cities. As a general rule, the burdens of hardship are even more maldistributed than the burdens of unemployment.

Sex

The incidence of unemployment among female workforce participants was only slightly above that for males. In contrast, females were 1.4 times as likely as males to have Inadequate Family Earnings and Inadequate Family Income, while the incidence of Inadequate Individual Earnings was 1.9 times higher among women than among men. Though males were much more often primary breadwinners, the sex differentials in hardship rates were substantial, and far greater than the differentials in unemployment rates, for males and females with similar support responsibilities.

	Average annual unemployment	Experienced some unemployment during year	IIE	IFE	IFI
Males	5.1%	15.5%	17.5%	9.7%	5.2%
Females	6.8	16.1	32.4	13.4	7.1
Males family heads (No wife in workforce)	3.4	9.8	9.7	13.8	6.2
Female family heads	5.2	20.4	29.8	33.4	22.0

Race

Black workforce participants were 1.7 times more likely than whites to experience unemployment during the year, and they were 1.5 times as likely to have Inadequate Individual Earnings. But the black IFE was 2.5 times that of whites, while blacks were 3.4 times as likely to have Inadequate Family Incomes. Similarly, Hispanics were half again as likely as whites to experience unemployment, but the IFI incidence among Hispanics was 2.4 times that among whites.

	Average annual unemployment	Experienced some unemployment during year	IIE	IFE	IFI
Whites	5.1%	14.7%	22.9%	9.8%	4.8%
Blacks	12.2	24.2	34.6	24.1	16.4
Hispanics	8.3	22.0	28.5	16.0	15.5

Age

The incidence of Inadequate Individual Earnings was twice as high among workforce participants age 65 and over as among those age 25 to 44, and the incidence of Inadequate Family Earnings among older workers was 5.4 times that among prime age workers, although income transfers equalized the IFI rates. Teenagers were three and a half times as likely as prime age workers to have Inadequate Individual Earnings.

	Average annual unemployment	Experienced some unemployment during year	IIE	IFE	IFI
16-19	16.1%	26.5%	59.4%	15.2%	9.2%
20-24	9.0	25.5	30.8	12.7	8.0
25-44	4.5	14.9	16.9	8.4	5.7
45-64	3.1	9.1	17.5	9.2	4.2
65 and over	3.4	5.8	35.7	45.1	4.3

Education

The incidence of hardship declined significantly with increased educational attainment. High school dropouts were 2.6 times more likely than college graduates to experience unemployment during the year, but the IIE, IFE and IFI rates for dropouts were, respectively, 3.7, 4.3 and 5.5 times those for college graduates.

Highest educational attainment	Experienced some unemployment during year	IIE	IFE	IFI
Students	20.3%	54.7%	16.2%	8.0%
Dropouts	22.0	34.6	21.5	12.1
High school graduates, no further education	15.9	21.3	8.9	4.7
Post-secondary education (1-3 years)	13.0	16.2	7.6	3.8
College graduates	8.5	9.4	4.9	2.2

Occupation

The incidence of unemployment among operatives, laborers, farm and service workers was 2.8 times the incidence among professional, technical, managerial and administrative workers, but the IIE, IFE and IFI rates were 3.4, 2.9 and 3.5 times as high.

	Average annual unemployment	Experienced some unemployment during year	IIE	IFE	IFI
Professional, technical and managerial	2.3%	7.1%	10.2%	5.6%	2.6%
Sales	3.9	10.8	29.4	10.8	4.4
Clerical	4.6	12.1	21.3	8.5	4.4
Craft and kindred	4.5	17.3	11.5	7.5	4.3
Operatives	7.7	22.0	19.6	10.1	5.6
Laborers	10.8	27.4	35.2	16.6	9.7
Farm workers	3.8	11.0	58.4	25.7	15.7
Service workers	7.1	16.8	44.8	20.2	10.9

Location

Workforce participants residing in nonmetropolitan areas had the same probability of experiencing unemployment as those in metropolitan areas, but their chances of having Inadequate Individual Earnings were two-fifths higher, while the rates of Inadequate Family Earnings and Inadequate Family Income were half again those of metropolitan-area workers. The unemployment incidence in central cities of SMSA's with over one million population was 1.3 times the incidence in surrounding suburbs; the large central city IFE and IFI rates were 1.8 and 2.3 times those of suburban areas.

	Average annual unemployment	Experienced some unemployment during year	Severe hardship incidence		
			IIE	IFE	IFI
Metropolitan areas	5.8%	15.7%	21.4%	10.1%	5.4%
Central cities	7.1	17.6	23.0	13.1	7.7
Suburbs	5.0	14.3	20.1	8.1	4.0
Nonmetropolitan areas	5.7	15.7	29.8	13.9	7.3

Hardship Trends

The 1974-1980 Shifts

The incidence of Inadequate Individual Earnings declined noticeably over the 1974-1980 period; the incidence of Inadequate Family Earnings declined modestly, while the incidence of Inadequate Family Income actually increased.

Comparisons between the low unemployment years, 1974 and 1979, and the high unemployment years, 1975 and 1980, are the best indicators of these multi-year trends. The severe hardship IIE dropped by 1.6 percentage points between 1974 and 1979, and 1.4 percentage points between 1975 and 1980. The IFE rate fell by 0.2 percentage points in the first period and 0.4 percentage points in the second. The IFI rose by 0.5 percentage points between 1975 and 1980.

	1974	1979	1979-1974	1975	1980	1980-1975	1980-1974
Severe Hardship							
IIE	25.8%	24.2%	-1.6%	29.1%	27.7%	-1.4%	+1.9%
IFE	11.6	11.4	-0.2	13.2	12.8	-0.4	+1.2
IFI	6.1	6.0	-0.1	6.9	7.2	+0.3	+1.1
Intermediate Hardship							
IIE	35.3	35.0	-0.3	38.4	37.9	-0.5	+2.6
IFE	14.9	14.7	-0.2	16.8	16.4	-0.4	+1.5
IFI	9.2	9.0	-0.2	10.3	10.4	+0.1	+1.2
Moderate Hardship							
IIE	44.3	44.0	-0.3	46.6	47.3	+0.7	+3.0
IFE	18.5	18.4	-0.1	20.9	20.5	-0.4	+2.0
IFI	12.8	12.3	-0.5	14.3	14.1	-0.3	+1.3

The moderate and intermediate hardship IIE and IFE totals increased relative to the severe hardship totals, while the moderate and intermediate hardship IFI totals declined relative to the severe hardship IFI. For instance, the severe, moderate and intermediate hardship IFE rates all dropped 0.4 percentage points between 1975 and 1980, so that both the intermediate and moderate hardship IFE counts increased in proportion to the severe hardship IFE count. The patterns were reversed in the case of the IFI, where the severe hardship incidence rose 0.3 percentage points between 1975 and 1980, while the intermediate hardship IFI incidence rose by 0.1 percentage points and the moderate hardship IFI incidence declined by 0.3 percentage points, thus reducing the differential between the moderate and intermediate hardship IFI counts and the severe hardship IFI.

The Unraveling Safety Net for the Working Poor

The incidence of Inadequate Family Income did not decline between 1974 and 1979, and actually rose between 1975 and 1980 because of the declining effectiveness of the safety net for the working poor. The impact of nontransfer

earnings supplements increased significantly over the period, but the diminished impact of cash transfers more than offset this favorable development. For instance, nontransfer earning supplements raised 16.2 percent of the IFE out of poverty in 1975 compared to 19.5 percent in 1980, an increase of 3.3 percentage points. Yet transfer and nontransfer earnings supplements combined lifted 47.3 percent of the working poor out of poverty in 1975, but only 44.0 percent in 1980, a decline of 3.3 percentage points. Among workforce participants who would have been poor in the absence of cash transfers, 37.1 percent were raised out of poverty by cash benefits received in 1975, compared to only 30.4 percent in 1980.

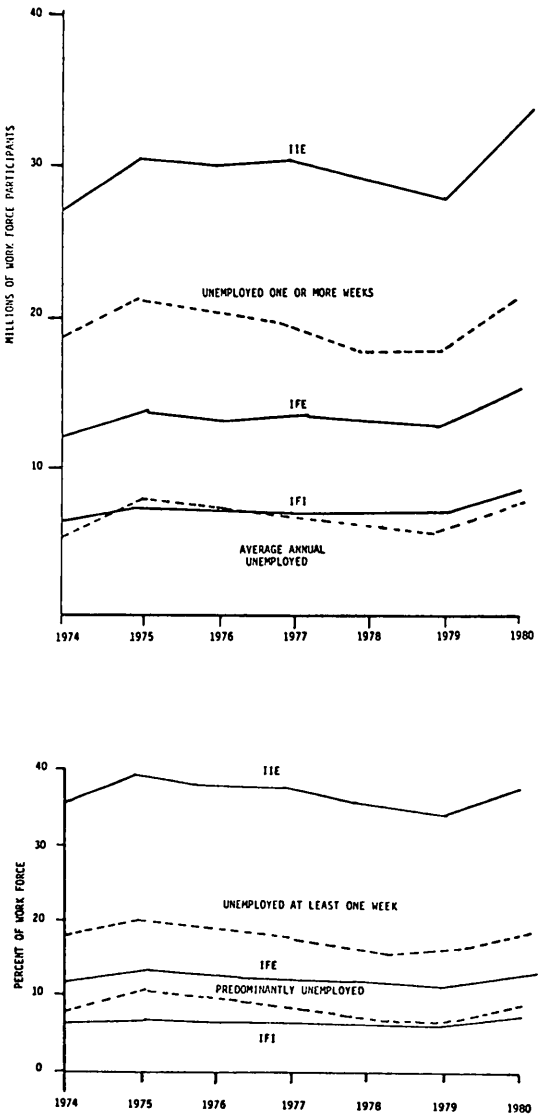
This drop occurred despite a slight decline in the real net-of-transfer IFI average deficit between 1974 and 1979, as well as between 1975 and 1980. It was not explained by changing workforce composition or work experience patterns. For almost all subgroups in the workforce, there was a noticeable drop in the poverty reduction impact of transfers.

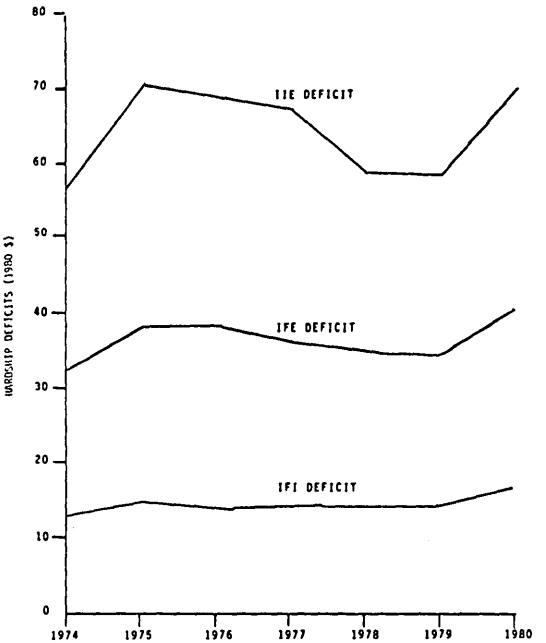
The effectiveness of the safety net diminished as well for the nonworking poor. Yet the slippage was greater among the working poor. For instance, 50.7 percent of all persons in households with no workforce participants in 1975 were lifted out of poverty by cash benefits compared to 49.1 percent in 1980. This 1.6 percentage point drop compared to a 6.7 percentage point drop in the proportion of otherwise poor families with at least one workforce participant who were lifted out of poverty by cash transfers.

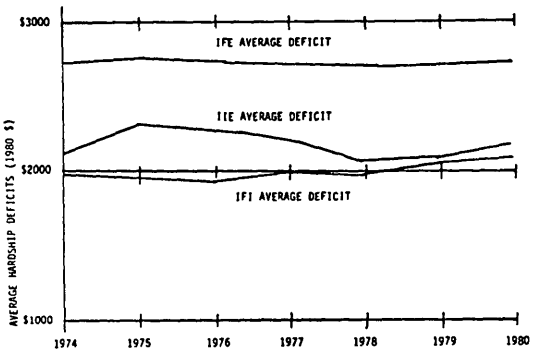
Hardship Over the Business Cycle

Hardship rises in recessions and declines during periods of economic growth (Chart 7). The annual unemployment, IIE and IFE rates were highly correlated over the 1974-1980

Chart 7
Severe Hardship and Unemployment, 1974-1980




HARDSHIP DEFICITS (1980 $)
80
70
60
50
40
30
20
10
0
IIE DEFICIT
IFE DEFICIT
IFI DEFICIT
1974
1975
1976
1977
1978
1979
1980


AVERAGE HARDSHIP DEFICITS (1980 $)
$3000
$2000
$1000
IFE AVERAGE DEFICIT
IIE AVERAGE DEFICIT
IFI AVERAGE DEFICIT
1974
1975
1976
1977
1978
1979
1980

period, although there was a lesser correlation between the unemployment and IFI rates.

	Correlation between average annual unemployment rate and hardship incidence	Correlation between percent workforce experiencing unemployment and hardship incidence
Inadequate Individual Earnings	.92	.91
Inadequate Family Earnings	.94	.87
Inadequate Family Income	.78	.69

However, the proportional fluctuations in hardship were less severe than those in unemployment, since many of the victims of recessions were already in hardship and their situation deteriorated. In the 1974-1975 and 1979-1980 declines, the percentage increases in unemployment were greater than the percentage increases in hardship.

	1974-1975		1979-1980	
	Absolute increase (000)	Percentage increase	Absolute increase (000)	Percentage increase
Average annual unemployment	2,754	54%	1,485	25%
Persons experiencing unemployment	2,568	14	2,942	16
IIE	3,589	13	4,478	16
IFE	1,760	15	1,831	14
IFI	906	14	1,410	20

The standard deviation of the average annual unemployment rate over the 1974-1980 period was 15 percent of the mean; the standard deviation in the IIE, IFE and IFI rates were 7, 7 and 9 percent of their respective means.

The Victims of Recession

Though recessions exacerbate conditions for those who suffer continuing structural employment problems, they also undermine the well-being of the more advantaged segments of the labor force who seldom face hardship under normal circumstances.

—Prime age (25- to 44-year old) workers were underrepresented among those in hardship in 1974, accounting for 29 percent of persons with Inadequate Family Earnings compared to 40 percent of the workforce. Yet 43 percent of the 1974-1975 increment in the IFE were prime age workers.

—Male family heads were also underrepresented among those in hardship, accounting for 40 percent of the 1974 workforce but only 27 percent of the persons in families with below-poverty earnings in 1974. Nevertheless, they accounted for 40 percent of the 1974-1975 increase in the IFE.

—Workers who had completed some post-secondary education accounted for 28 percent of the workforce but only 14 percent of the persons in families with below-poverty earning in 1974. They represented 25 percent of the recessionary increment in the IFE count.

—Whites, who constituted 89 percent of the 1974 workforce but only 76 percent of the IFE, accounted for 92 percent of the 1974-1975 IFE increase.

In the 1979-1980 recession, the same patterns prevailed but were generally less pronounced, as suggested by the ratio of each advantaged subgroup's share of the recession increment of the IFE divided by its share of the pre-recession IFE.

	Share 1974-1975 IFE increment / Share 1974 IFE	Share 1979-1980 IFE increment / Share 1979 IFE
Male family heads	1.47	1.15
Workforce participants who had completed some post-secondary education	1.79	1.27
Whites	1.21	1.04
Prime age workers (25- to 44-year olds)	1.47	1.58

Policy Implications

The Remedies

To significantly alleviate labor market-related economic hardship will require a combination of macroeconomic and targeted structural measures, combined with expanded income transfers for the working poor. Full employment and increased minimum wages are necessary but far from sufficient. Less than a fourth of the 1979 unemployed were in families with inadequate earnings, only one in seven were in poor families, and just a third of individuals with inadequate earnings were in families with below-poverty earnings. Thus, reductions in unemployment or increases in the minimum wage which would reduce the incidence of Inadequate Individual Earnings would also affect many who were not in hardship. Any disemployment effects from increased minimum wages would be concentrated among those at the end of the labor queue. Regressions using 1974-1980 annual data suggest that a 10 percentage point increase in the legislated minimum wage (as measured relative to the real value of the minimum wage averaged for the 1967-1980 period) was associated with a 1.9 percentage point reduction in the IIE rate, a 0.6 percentage point drop in the IFE rate and a 0.3 percentage point drop in the IFI rate. Since the

ratio of the legislated minimum divided by the average real minimum ranged only from 94 percent in 1977 to 102 percent in 1978, or a swing of 8 percentage points, this was not a major factor in hardship trends. A 1 percentage point decline in average annual unemployment was associated with a 1.2 percentage point drop in the IIE, a 0.5 percentage point drop in the IFE and a 0.3 percentage point drop in the IFI.

Projecting 1982 hardship levels based on this simple regression model for 1974 through 1980, and assuming, most plausibly, that unemployment will average 9 percent in 1982 and inflation will erode only 5 percent from the unchanged legislated minimum wage, the IIE rate will be 30.7 percent, the IFE rate, 14.2 percent, and the IFI rate, 8.0 percent (or even higher, as retrenchment in transfer benefits is greater than the 1970s downtrend). These projected levels for 1982 would contrast unfavorably with the 1979 lows of 24.2, 11.4 and 6.0 percent, respectively. Even if unemployment miraculously dropped to a 7.0 percent level for the year, requiring a massive recovery in the summer and fall of 1982, and even if inflation declined to a 2.5 percent annual rate, the IFE would remain at 13.0 percent, almost the same as in 1975—while the IFI would be 7.2 percent, in contrast to 6.9 percent in 1975.

If all workers were provided minimally adequate individual earnings, hardship would not be eliminated and transfers would still be needed to alleviate deprivation among workforce participants and their families. The IFE would have been reduced by only 36 percent in 1979, and the IFE Deficit by 41 percent, if the earnings of all persons were augmented up to the minimum wage equivalent for all hours of availability. If all people living in families with below-poverty earnings in 1979 were provided employment at the usual wage for any hours of forced idleness, and their earnings were then increased by 10 percent, 56 percent would have remained with Inadequate Family Earnings, and they

would have needed $22.1 billion in earnings supplements to reach the poverty level. Thus, targeted manpower programs providing minimum wage employment or marginal earnings improvements would not eliminate the need for income transfers.

Allocation and Targeting

The use of hardship measures to allocate and target resources intended for the unemployed and underemployed from low-income families would yield a substantially different distribution among geographic areas and population segments than the current method of allocating and targeting based on unemployment shares or unemployment and poverty shares. Nonmetropolitan areas would benefit substantially and so would the southern states. The nonmetropolitan area share of the IFE tally, averaged for the 1974-1980 period, was nearly two-fifths higher than the nonmetropolitan area share of average annual unemployment, and a fifth above the nonmetropolitan share of poverty and unemployment, each equally weighted. If funds were allocated based on IFE shares, the suburban rings of metropolitan areas would have received a fourth less than if unemployment shares were the determining factor, or a tenth less than if equally weighted unemployment and poverty shares were used in allocation. The West North Central, South Atlantic, East South Central, West South Central, and Mountain states would have received a fourth more under an IFE-based allocation than an unemployment-based allocation, and a tenth more than under a poverty and unemployment share basis.

If resources were allocated according to need, and need were determined on the basis of the IFE share rather than the unemployment share, family heads (both males and females) would have received greater priority. Also, there would have been much more emphasis on helping older workers and less on youth employment problems. Dropouts would have received far more attention.

	Winners		
	Share of unemployed	Share of poverty and unemployment	IFE share
Male family heads	18.8%	17.7%	24.5%
Female family heads	6.9	11.9	15.2
Unrelated individuals	14.1	24.2	26.4
Dropouts	28.8	42.0	39.9
45 and over	16.5	29.4	36.2

	Losers		
	Share of unemployed	Share of poverty and unemployment	IFE share
Wives	19.7%	17.6%	14.1%
Other family members	40.5	28.7	19.8
High school graduates	38.4	30.7	30.2
Completers of some post-secondary education	22.9	17.1	18.1
16-19	26.6	19.7	13.4
20-24	23.1	18.5	17.1

Adding A Third Leg to Social Statistics

These assorted findings challenge much conventional wisdom about how many and who are suffering as a result of labor market problems. The same conclusions might be reached by careful analysis of the detailed and disaggregated labor force and income data, but the hardship measures provide a systematic integration which provides new perspectives to the public and policymakers who have not been able to piece together the hodgepodge of existing statistics. Those

who do not like what they see from the hardship perspective may argue that the measures distort reality because of the value judgments, assumptions and technical problems implicit in the measures. It may be difficult to accept that so many millions of Americans are unable to support themselves and their families even when they are lucky enough to find and hold jobs, that there has been little or no progress in alleviating hardship over recent years, that the burdens of labor market-related hardship are even more maldistributed than the burdens of unemployment, that the greater public concern with cyclical rather than structural problems may be misplaced, that a rising tide will not lift all boats, and that welfare and workfare must continue to overlap if hardship is to be alleviated for those failing in or failed by the labor market. It may be equally difficult to admit that the unemployment and poverty statistics, which are the foundation of public policy and public understanding, are not effective in perhaps their primary application—measuring who and how many suffer as a result of labor market problems. It is certainly no easy task to learn an entirely new nomenclature, or to adjust and supplement libraries of econometric studies and esoteric analyses which are based on the assumption that unemployment rates are a good proxy for labor market-related hardship. It is a formidable challenge to fine-tune the hardship measures and to modify the underlying survey instruments and approaches in order to improve the accuracy and reliability of hardship statistics. Yet if we are seriously committed to understanding and alleviating the welfare consequences of labor market problems, then the unemployment and poverty statistics must be supplemented by new measures developed to integrate earnings, work experience and income data in a systematic way, recognizing the complexities of varying family status, labor force attachment and patterns of work experience. Social policies must, then, be redirected in light of these new perspectives.

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